

AR37

**PRESTON  
MINES  
LIMITED**

**ANNUAL REPORT 1977**



# Preston

MINES LIMITED

120 Adelaide Street West

Toronto, Canada M5H 1W5

## Annual Report 1977

### Directors

G. R. ALBINO  
President and Chief Operating Officer,  
Rio Algom Limited (1), Toronto

\*R. D. ARMSTRONG  
Chairman and Chief Executive Officer,  
Rio Algom Limited (1), Toronto

R. C. BERRY  
Vice-President and General Manager,  
Tinto Holdings Canada Limited (2), Toronto

\*J. IAN CROOKSTON  
Deputy Chairman, Nesbitt Thomson and Company  
Limited, Investment Dealers, Toronto

P. H. DEAN  
An Executive Director, The Rio Tinto-Zinc Corporation  
Limited (3), London, England

\*W. C. PITFIELD  
President, Pitfield, Mackay, Ross & Company  
Limited, Investment Dealers, Toronto

\* Members of the Audit Committee

### Officers

R. D. ARMSTRONG, President  
Chairman and Chief Executive Officer,  
Rio Algom Limited (1), Toronto

G. R. ALBINO, Vice-President  
President and Chief Operating Officer,  
Rio Algom Limited (1), Toronto

A. C. TURNER, Vice-President, Secretary  
Vice-President, Secretary,  
Rio Algom Limited (1), Toronto

J. VAN NETTEN, Treasurer  
Vice-President, Treasurer,  
Rio Algom Limited (1), Toronto

- (1) Exploration for and mining of ores and minerals and manufacture and distribution of stainless and specialty steel mill products.
- (2) The holding company for certain Canadian interests of The Rio Tinto-Zinc Corporation Limited.
- (3) The parent of an international group of mining and industrial companies.

### ANNUAL MEETING

The Corporation will hold an Annual and General Meeting of Shareholders on Thursday, April 27, 1978 at 10:30 a.m. (Toronto time) in the Confederation Room, Royal York Hotel, 100 Front Street West, Toronto, Canada.



## Directors' Report to Shareholders

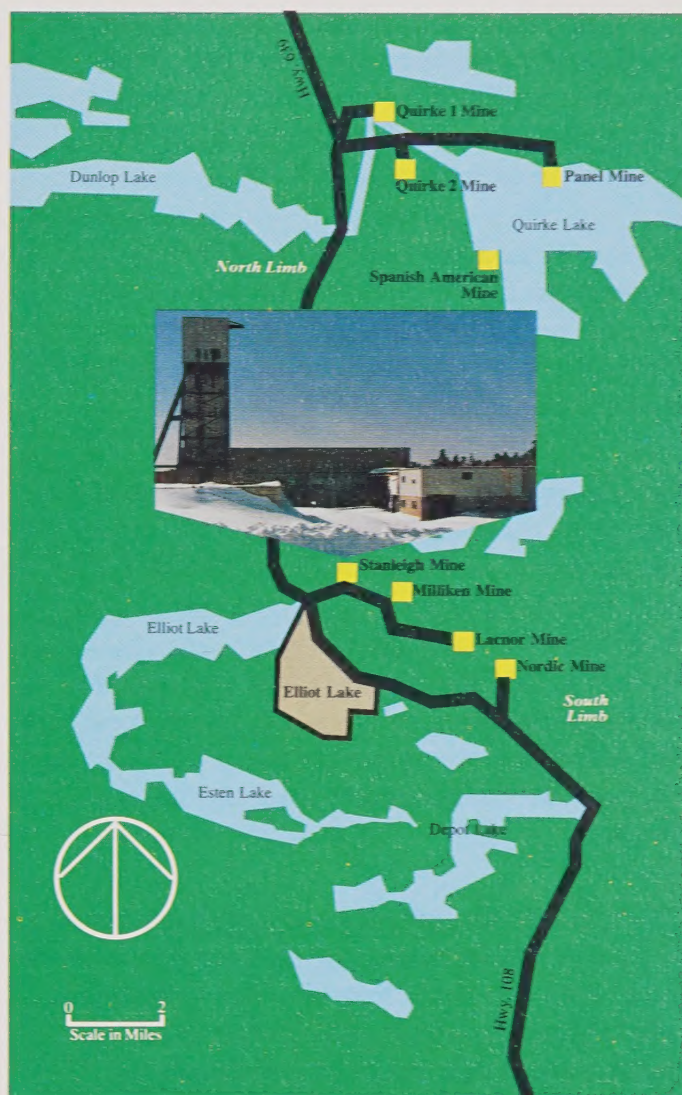
Net earnings for 1977 were \$18,245,920 representing \$2.07 per share compared with \$13,460,761 or \$1.52 per share in the previous year. The net earnings for both years include Preston's 43.8% equity in Rio Algom Limited's net earnings in the amounts of \$18,372,320 and \$13,557,627 in 1977 and 1976, respectively.

The increase in Rio Algom's earnings in 1977 compared with 1976 was mainly due to substantially increased earnings from uranium operations and improved earnings from steel operations partially offset by lower earnings of the British Columbia copper-molybdenum mine of Lornex Mining Corporation Ltd. which is 67.2% owned by Rio Algom. For your information and with the consent of Rio Algom the Annual Report of that Corporation for 1977 is forwarded to you with this Report.

Dividends received from Rio Algom were \$6,394,290 in 1977 and \$5,920,640 in 1976. Dividends paid by Preston were \$6,181,349 or 70 cents per share in each year.

On January 11, 1978 it was announced that Preston had signed a contract with Ontario Hydro for delivery to the utility of approximately 72 million pounds of uranium in concentrate over the period 1984 to 2020. This commitment is approximately equal to the currently estimated total reserves of Preston's Stanleigh uranium property. The contract contains certain provisions for expansion of the project and acceleration of deliveries, curtailment of deliveries and termination.

The selling price of uranium to be delivered under the contract will be determined annually. It will comprise a base price equal to Preston's costs as defined plus \$5 per pound of uranium subject to escalation and an additional amount equal to one-third of any excess of the free market price over the base price.



Under the contract, Hydro will make interest free advances of the funds required to bring the project into production, currently estimated at \$188.5 million in 1975 dollars, and the funds necessary for the working and sustaining capital requirements of the project. The funds advanced will be repaid to Ontario Hydro in amounts equal to the depreciation charges included in the base price. The additional amount derived from any excess of the free market price over the base price will be retained by Ontario Hydro and will become payable to Preston over an extended period commencing when the additional amount so retained exceeds the outstanding balance of the advances.



# Preston

MINES LIMITED

120 Adelaide Street West  
Toronto, Canada M5H 1W5

## Annual Report 1977

### Directors

G. R. ALBINO  
President and Chief Operating Officer,  
Rio Algom Limited (1), Toronto

\*R. D. ARMSTRONG  
Chairman and Chief Executive Officer,  
Rio Algom Limited (1), Toronto

R. C. BERRY  
Vice-President and General Manager,  
Tinto Holdings Canada Limited (2), Toronto

\*J. IAN CROOKSTON  
Deputy Chairman, Nesbitt Thomson and Company  
Limited, Investment Dealers, Toronto

P. H. DEAN  
An Executive Director, The Rio Tinto-Zinc Corporation  
Limited (3), London, England

\*W. C. PITFIELD  
President, Pitfield, Mackay, Ross & Company  
Limited, Investment Dealers, Toronto

\* Members of the Audit Committee

### Officers

R. D. ARMSTRONG, President  
Chairman and Chief Executive Officer,  
Rio Algom Limited (1), Toronto

G. R. ALBINO, Vice-President  
President and Chief Operating Officer,  
Rio Algom Limited (1), Toronto

A. C. TURNER, Vice-President, Secretary  
Vice-President, Secretary,  
Rio Algom Limited (1), Toronto

J. VAN NETTEN, Treasurer  
Vice-President, Treasurer,  
Rio Algom Limited (1), Toronto

- (1) Exploration for and mining of ores and minerals and manufacture and distribution of stainless and specialty steel mill products.
- (2) The holding company for certain Canadian interests of The Rio Tinto-Zinc Corporation Limited.
- (3) The parent of an international group of mining and industrial companies.

### ANNUAL MEETING

The Corporation will hold an Annual and General Meeting of Shareholders on Thursday, April 27, 1978 at 10:30 a.m. (Toronto time) in the Confederation Room, Royal York Hotel, 100 Front Street West, Toronto, Canada.



## Directors' Report to Shareholders

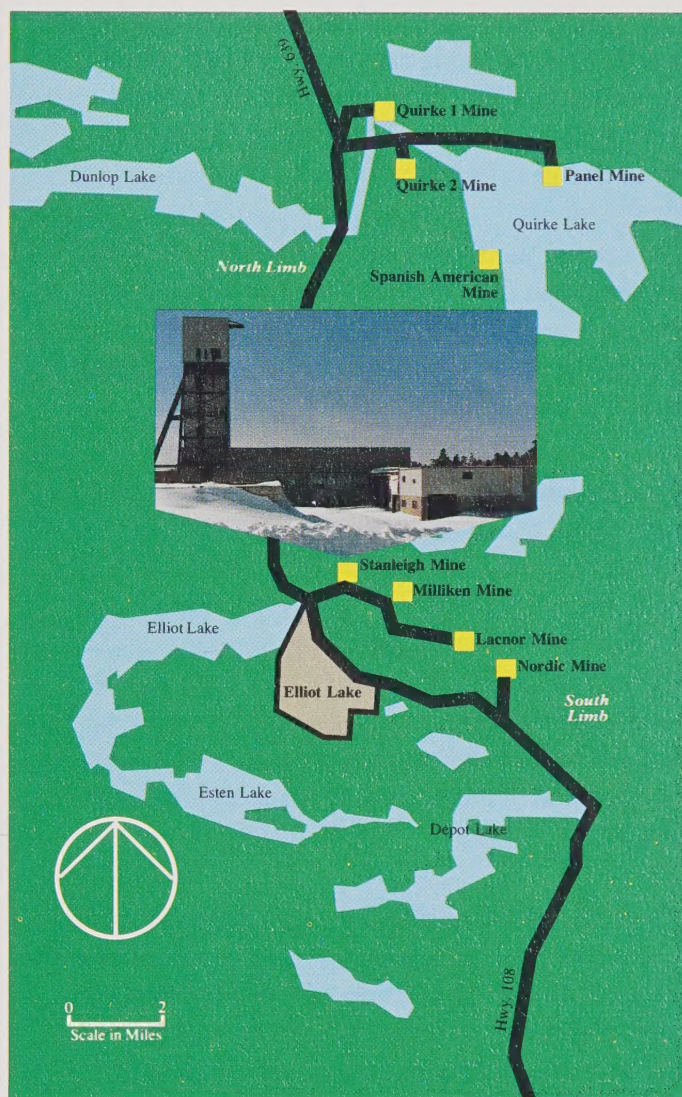
Net earnings for 1977 were \$18,245,920 representing \$2.07 per share compared with \$13,460,761 or \$1.52 per share in the previous year. The net earnings for both years include Preston's 43.8% equity in Rio Algom Limited's net earnings in the amounts of \$18,372,320 and \$13,557,627 in 1977 and 1976, respectively.

The increase in Rio Algom's earnings in 1977 compared with 1976 was mainly due to substantially increased earnings from uranium operations and improved earnings from steel operations partially offset by lower earnings of the British Columbia copper-molybdenum mine of Lornex Mining Corporation Ltd. which is 67.2% owned by Rio Algom. For your information and with the consent of Rio Algom the Annual Report of that Corporation for 1977 is forwarded to you with this Report.

Dividends received from Rio Algom were \$6,394,290 in 1977 and \$5,920,640 in 1976. Dividends paid by Preston were \$6,181,349 or 70 cents per share in each year.

On January 11, 1978 it was announced that Preston had signed a contract with Ontario Hydro for delivery to the utility of approximately 72 million pounds of uranium in concentrate over the period 1984 to 2020. This commitment is approximately equal to the currently estimated total reserves of Preston's Stanleigh uranium property. The contract contains certain provisions for expansion of the project and acceleration of deliveries, curtailment of deliveries and termination.

The selling price of uranium to be delivered under the contract will be determined annually. It will comprise a base price equal to Preston's costs as defined plus \$5 per pound of uranium subject to escalation and an additional amount equal to one-third of any excess of the free market price over the base price.



Under the contract, Hydro will make interest free advances of the funds required to bring the project into production, currently estimated at \$188.5 million in 1975 dollars, and the funds necessary for the working and sustaining capital requirements of the project. The funds advanced will be repaid to Ontario Hydro in amounts equal to the depreciation charges included in the base price. The additional amount derived from any excess of the free market price over the base price will be retained by Ontario Hydro and will become payable to Preston over an extended period commencing when the additional amount so retained exceeds the outstanding balance of the advances.



---

An engineering study to culminate in a project report has commenced and is expected to be completed by November 1, 1978. If the report fails to confirm certain project estimates and criteria Ontario Hydro may terminate the contract.

The map of the Elliot Lake area on page 1 of this Report shows the location of the Corporation's Stanleigh property on the South Limb of the uranium bearing formations contiguous to properties of Rio Algom in this area.

The Stanleigh mine and mill have been idle since the termination of mining in November, 1960 and the closing of the mill in January, 1961. As explained in the 1976 Annual Report these closures followed a decision by the United States Atomic Energy Commission in November, 1959 that, because of the over-supply of uranium at that time, options would not be exercised to take deliveries of uranium concentrates from Canadian producers after completion of the then existing contracts.

It is expected that construction and development work on the production facilities will commence towards the end of 1978 with production scheduled to begin in 1984. The design average milling rate will be approximately 5,000 tons of ore per day; annual production of uranium in concentrate is expected to average about two million pounds. The construction and development of the facilities and subsequent operations will be carried out on a fee basis by Rio Algom on behalf of Preston. It is expected that when the production facilities are in operation there will be some 1,000 new long term job opportunities at Elliot Lake as well as several times as many additional jobs in Ontario and elsewhere in Canada through the multiplier effect.

The major concern with regard to the completion of the Stanleigh project on schedule is the potential delay and disruption of construction programs that could result from the multiplicity of rules and regulations in respect of the environment that are now being formulated by

both Federal and Provincial government agencies in relation to the mine and processing facilities and to the housing required for employees. It is hoped that under the circumstances the various governmental regulatory bodies that are involved will appreciate the need to act promptly to establish clear and reasonable regulations regarding environmental and other matters.

Toronto, Canada  
February 24, 1978.

On behalf of the Board,

R. D. Armstrong,  
President.

---

## **Auditors' Report to the Shareholders**

We have examined the statement of financial position of Preston Mines Limited as at December 31, 1977 and the statements of earnings, retained earnings and contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
February 24, 1978

COOPERS & LYBRAND  
Chartered Accountants



# Preston Mines Limited

(Incorporated under the laws of Ontario)

## Statement of Financial Position December 31, 1977

	1977	1976
CURRENT ASSETS:		
Cash and short term deposits .....	\$ 320,866	\$ 601,514
Accounts receivable .....	7,737	19,067
	<u>328,603</u>	<u>620,581</u>
Less:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities .....	94,173	9,813
Payable to Rio Algom Limited .....	82,847	—
Unclaimed dividends .....	306,682	137,983
	<u>483,702</u>	<u>147,796</u>
WORKING CAPITAL (DEFICIENCY) .....	(155,099)	472,785
Investment in Rio Algom Limited		
5,920,640 common shares (note 1) .....	147,992,482	135,879,106
Mining properties, less amortization (note 2) .....	2	2
Deferred development expenditure .....	1,307,285	592,860
EXCESS OF ASSETS OVER LIABILITIES .....	<u>\$149,144,670</u>	<u>\$136,944,753</u>
OWNERSHIP EVIDENCED BY:		
Capital stock		
Authorized:		
1,069,925 4% cumulative, redeemable, non-voting preference shares with a par value of 50 cents each		
10,000,000 common shares without par value		
Issued:		
8,830,499 common shares .....	\$ 37,458,519	\$ 37,458,519
Contributed surplus .....	24,896,819	24,761,473
Retained earnings .....	86,789,332	74,724,761
	<u>\$149,144,670</u>	<u>\$136,944,753</u>

Approved on behalf of the Board:

J. I. CROOKSTON, Director

R. D. ARMSTRONG, Director



# Statement of Earnings, Retained Earnings and Contributed Surplus

YEAR ENDED DECEMBER 31, 1977

	1977	1976
<b>EARNINGS</b>		
Equity in net earnings of Rio Algom Limited .....	\$ 18,372,320	\$ 13,557,627
Excess of miscellaneous expenses over sundry income .....	(126,400)	(96,866)
Net earnings for the year (note 3) .....	<u>\$ 18,245,920</u>	<u>\$ 13,460,761</u>
Earnings per common share .....	<u>\$ 2.07</u>	<u>\$ 1.52</u>
<b>RETAINED EARNINGS</b>		
BALANCE, beginning of year .....	\$ 74,724,761	\$ 67,445,349
Net earnings for the year .....	<u>18,245,920</u>	<u>13,460,761</u>
	<u>92,970,681</u>	<u>80,906,110</u>
Dividends paid on common shares at the rate of \$0.70 per share .....	<u>6,181,349</u>	<u>6,181,349</u>
BALANCE, end of year .....	<u>\$ 86,789,332</u>	<u>\$ 74,724,761</u>
<b>CONTRIBUTED SURPLUS</b>		
BALANCE, beginning of year .....	\$ 24,761,473	\$ 24,730,509
Equity in increase in contributed surplus of Rio Algom .....	<u>135,346</u>	<u>30,964</u>
BALANCE, end of year .....	<u>\$ 24,896,819</u>	<u>\$ 24,761,473</u>



---

## Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1977

	<u>1977</u>	<u>1976</u>
SOURCE OF FUNDS:		
Dividends from Rio Algom Limited .....	\$ 6,394,290	\$ 5,920,640
Excess of miscellaneous expenses over sundry income .....	(126,400)	(96,866)
Add charge not affecting working capital —		
Loss on sale of Rio Algom debentures .....	—	23,875
	<u>6,267,890</u>	<u>5,847,649</u>
Proceeds from sale of Rio Algom debentures .....	—	453,625
	<u>6,267,890</u>	<u>6,301,274</u>
DISPOSITION OF FUNDS:		
Dividends on common shares .....	6,181,349	6,181,349
Deferred development expenditures .....	714,425	—
	<u>6,895,774</u>	<u>6,181,349</u>
INCREASE (DECREASE) IN WORKING CAPITAL .....	(627,884)	119,925
WORKING CAPITAL, beginning of year .....	472,785	352,860
WORKING CAPITAL (DEFICIENCY), end of year .....	\$ <u>(155,099)</u>	\$ <u>472,785</u>



---

# Notes to Financial Statements

DECEMBER 31, 1977

## 1. INVESTMENT IN RIO ALGOM LIMITED

The Corporation's investment in common shares of Rio Algom Limited represents 43.8% of the issued common shares of Rio Algom and is carried on the equity accounting basis. The cost of the Corporation's investment exceeded its equity in the net assets of Rio Algom at date of acquisition by \$11,221,004 and this excess has been written off to retained earnings.

## 2. PLANT AND EQUIPMENT

	1977	1976
Buildings, machinery and equipment, at cost .....	\$8,340,079	\$8,974,073
Less accumulated depreciation .....	8,340,079	8,974,073
	<u>\$ —</u>	<u>\$ —</u>
Mining properties, at cost .....	\$ 569,789	\$ 569,789
Less accumulated amortization .....	569,787	569,787
	<u>\$ 2</u>	<u>\$ 2</u>

## 3. INCOME AND MINING TAXES

Because of the exemptions and deductions permitted for tax purposes, it is estimated that the Corporation has no liability for income or mining taxes for the year.

## 4. SUBSEQUENT EVENT

In January 1978, the Corporation signed a contract with Ontario Hydro for delivery to the utility of approximately 72 million pounds of uranium in concentrate over the period 1984 to 2020, to be produced from the Corporation's Stanleigh mining property. Under the contract Hydro will make interest free advances of the funds required to bring the Stanleigh project into production, currently estimated at \$188.5 million in 1975 dollars, and the funds necessary for the working and sustaining capital requirements of the project. The contract is conditional upon approval by the Ontario Government.

Rio Algom has agreed to manage the development and subsequent operation of the Stanleigh property and the Corporation has agreed to pay a management fee of \$250,000 for 1977, \$750,000 for each of the years 1978 to 1983 inclusive and \$500,000 for 1984 and each succeeding year; the annual management fee payable after 1977 will be escalated from the fourth quarter of 1977 in accordance with a formula based on published government indices. The 1977 management fee of \$250,000 is included in deferred development expenditures in the attached statement of financial position.

## 5. ANTI-INFLATION PROGRAM

The Corporation is subject to and has complied with controls over dividends under the Canadian Government's Anti-Inflation Program.

## 6. UNAUDITED QUARTERLY RESULTS

The quarterly equity in net earnings of Rio Algom Limited, net earnings and earnings per share as



previously reported in unaudited quarterly reports to shareholders are set forth in the following table (dollars in millions, except per share):

Quarter Ended	Equity in Net Earnings of Rio Algom		Net Earnings		Earnings Per Share	
	1977	1976	1977	1976	1977	1976
Mar. 31 .....	\$ 6.8	\$ 3.2	\$ 6.8	\$ 3.1	\$0.77	\$0.35
June 30 .....	4.1	3.8	4.1	3.8	0.46	0.44
Sept. 30 .....	3.9	3.4	3.8	3.4	0.44	0.38
Dec. 31 .....	3.6	3.2	3.5	3.2	0.40	0.35
	<u>\$18.4</u>	<u>\$13.6</u>	<u>\$18.2</u>	<u>\$13.5</u>	<u>\$2.07</u>	<u>\$1.52</u>

## 7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year ended December 31, 1977 the aggregate direct remuneration paid or payable by the Corporation to the Directors and Senior Officers of the Corporation was \$10,064.

## Supplementary Information

### Five Year Review

(\$000's omitted)

	1977	1976	1975	1974	1973
Equity in net earnings of Rio Algom Limited .....	\$ 18,372	\$ 13,558	\$ 12,882	\$ 19,018	\$ 22,697
Excess (deficiency) of sundry income over miscellaneous expenses .....	(126)	(97)	2	226	175
<b>NET EARNINGS FOR THE YEAR .....</b>	<b>\$ 18,246</b>	<b>\$ 13,461</b>	<b>\$ 12,884</b>	<b>\$ 19,244</b>	<b>\$ 22,872</b>
Earnings per share .....	\$ 2.07	\$ 1.52	\$ 1.54	\$ 2.45	\$ 2.91
Dividends paid (\$000's) .....	\$ 6,181	\$ 6,181	\$ 6,181	\$ 5,495	\$ 3,846
Per share of common stock .....	70¢	70¢	70¢	70¢	49¢
Common shares outstanding (000's) .....	8,830	8,830	8,830	7,849	7,849
Number of shareholders .....	3,000	3,100	3,400	3,400	3,500

## Price Range of Common Shares and Dividends Paid

The following table shows the high and low prices for Preston common shares on The Toronto Stock Exchange and the dividends paid on these shares by the Corporation.

	1977	1976
First Quarter	\$14 7/8 – 13 2/8	\$17 4/8 – 14 2/8
Second Quarter	15 2/8 – 13 4/8	16 5/8 – 15
Third Quarter	15 1/8 – 12 3/8	18 – 15 2/8
Fourth Quarter	15 2/8 – 11 2/8	15 2/8 – 12 6/8

Dividends paid per share: June 30, 1977 – 35¢; December 30, 1977 – 35¢.  
June 30, 1976 – 35¢; December 31, 1976 – 35¢.



# **Preston Mines Limited**

## **Miscellaneous Corporate Information**

### **Head Office**

120 Adelaide Street West, Toronto, Canada M5H 1W5

### **Auditors**

Coopers & Lybrand, Chartered Accountants                      Toronto, Ontario

### **Transfer Agents**

Common Shares

Canada Permanent Trust Company                      Toronto, Ontario

The Canadian Bank of Commerce Trust Company                      New York, N.Y.

### **Common Shares Listed**

Toronto Stock Exchange                      Toronto, Ontario

American Stock Exchange                      New York, N.Y.

### **Form 10-K Annual Report**

The Corporation's Form 10-K annual report for 1977  
to the United States Securities and Exchange  
Commission will be available on written  
request to the Secretary of the Corporation.







**TO THE SHAREHOLDERS:**

Net earnings for the first six months of 1977 were \$10,861,000 compared to \$6,963,000 for the same period in 1976. The comparative net earnings per common share were \$1.23 and \$0.78 respectively. The earnings per share are based on the average number of shares outstanding during the respective periods.

The increase in 1977 earnings as compared to 1976 was due to the increased earnings of Rio Algom Limited. Rio Algom's net earnings were \$25,244,000 and \$16,355,000 for the six months ended June 30, 1977, and June 30, 1976, respectively, and Preston's 43.8% equity therein was \$10,912,000 in 1977 and \$7,015,000 in 1976.

The Company's major asset continues to be its investment in Rio Algom. Rio Algom's earnings for the first six months of 1977 were higher than in the same period in 1976 mainly due to increased earnings from that company's uranium operations resulting from renegotiation of export contract prices. Since a significant part of the first quarter increase in Rio Algom's uranium earnings was of a non-recurring nature, they will not be maintained at the current high level for the balance of 1977.

Earnings at the Lornex copper-molybdenum mine, 66.9% owned by Rio Algom, were lower in the first six months of 1977, as compared to the same period in 1976, primarily because of lower copper prices and higher expenses.

Revenue and earnings were higher at Rio Algom's steel operations. Volume has improved in some areas although price levels in some product lines has not increased commensurate with cost increases. Also, last year's results had been adversely affected by a strike at the Tracy plant of Atlas Steels.

In the 1976 Annual Report, we reported that investigations were being carried forward to determine the possibility of economic recovery of the uranium reserves of the Company's Stanleigh property. These studies are continuing, having regard to the changing circumstances in uranium market conditions, and the large amount of capital that would be required to reactivate the mine and mill. An amount of \$375,000 was expended on these studies during the six months ended June 30, 1977.

Toronto, Canada  
July 28, 1977

R.D. Armstrong,  
President.

AR37

**Preston Mines Limited**

Interim Report to the Shareholders

*For the six months ended June 30, 1977*



## PRESTON MINES LIMITED

STATEMENT OF CHANGES  
IN FINANCIAL POSITION

for the six months ended June 30, 1977  
(\$000's omitted)

	1977	1976
<b>Source of Funds:</b>		
Dividends from Rio Algom Limited	\$ 3,197	\$ 2,960
Excess of miscellaneous expenses over sundry income	(51)	(52)
	<u>3,146</u>	<u>2,908</u>
<b>Disposition of Funds:</b>		
Dividends on common shares	3,090	3,090
Deferred development expenditure	<u>375</u>	<u>—</u>
	<u>3,465</u>	<u>3,090</u>
Decrease in working capital	(319)	(182)
Working capital, beginning of period	<u>473</u>	<u>353</u>
Working capital, end of period	<u>\$ 154</u>	<u>\$ 171</u>

## PRESTON MINES LIMITED

## STATEMENT OF EARNINGS

(\$000's omitted)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1977	1976	1977	1976
Equity in net earnings of Rio Algom Limited	\$ 4,078	\$ 3,848	\$ 10,912	\$ 7,015
Excess of miscellaneous expenses over sundry income	(6)	(18)	(51)	(52)
Net earnings for the period	<u>\$ 4,072</u>	<u>\$ 3,830</u>	<u>\$ 10,861</u>	<u>\$ 6,963</u>
Earnings per common share	<u>\$ 0.46</u>	<u>\$ 0.43</u>	<u>\$ 1.23</u>	<u>\$ 0.78</u>

Approved on behalf of the Board:

R.D. Armstrong, Director

G.R. Albino, Director

Subject to year end audit and adjustments.